

**Top Secret 219**

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NATIONAL INTELLIGENCE DAILY CABLE

Saturday 24 June 1978

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**NATIONAL SECURITY INFORMATION**  
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National Intelligence Daily Cable for Saturday, 24 June 1978.

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The NID Cable is for the purpose of informing senior US officials.

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ICELAND: National Elections

*[redacted] Iceland will hold a parliamentary election tomorrow, one month after the government parties were dealt a sharp defeat in nationwide local elections. Prime Minister Hallgrimsson's conservative Independence Party, the principal party in the governing coalition, is focusing its campaign on the issue that brought it to power in 1974--support for the US-manned Icelandic Defense Force. The opposition parties are stressing the government's failure to halt inflation.*

*[redacted] The electoral fate of Hallgrimsson's coalition partner--the moderate-left Progressive Party--will probably be the*

decisive factor in determining the character of the new government. Regardless of the outcome, Iceland will remain in NATO, although a leftist government might press for a reduction in US forces.

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[ ] The Independence Party is the nation's largest in terms of popular support and membership, despite a slow decline during its long tenure in office from 1959 to 1971. Hallgrimson's leadership is generally viewed as weak and uninspiring, but there is no alternative within his party.

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[ ] The Progressives, who led a three-party leftist coalition government from 1971 to 1974, may lose support in this election. By participating in recent years in coalitions of varying stripes they have acquired an opportunistic image, and they share the blame for the country's economic problems. Their rural base, moreover, has eroded as the population has become increasingly urbanized.

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[ ] The most leftist of the major parties, the People's Alliance, strongly advocates a phaseout of the Icelandic Defense Force, a policy it fought for when it was in the government between 1971 and 1974. It also wants a complete break with NATO. If the party were to participate in the next government, however, it would almost certainly be forced to compromise these positions, given the public's strong rejection of the phaseout policy in the 1974 election.

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[ ] The opposition Social Democratic Party, which lost many of its leftwing members during a long period of participation in coalitions with the Independence Party, is pro-West and pro-NATO. Its leader, however, has favored studying the feasibility of levying certain charges and taxes against the Icelandic Defense Force base at Keflavik and at least partially replacing US soldiers with US and Icelandic civilians as surveillance technicians. The party would be a force for moderation in any leftist coalition.

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[ ] In an attempt to combat skyrocketing production costs and inflation, the governing coalition put together an economic package in February that included a 13-percent devaluation of the krona and a limited incomes policy. It is difficult for voters to assess the program's impact on the economy so soon, but workers are well aware of the cuts being made into their incomes.

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[ ] Defense policy has always been an important issue because Icelanders, who do not have a defense force of their own, are ambivalent about the presence of foreign forces, although most of the voters favor NATO membership. The terms of the NATO base agreement--allowing either side to initiate renegotiations after giving six months' notice--give the issue continuous currency.

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[ ] In the past year various parties, including members of the Independence Party, have proposed revising the base agreement to provide for levying fees and taxes. Hallgrimsson and Foreign Minister Agustsson, who heads the Progressive Party, hope that the US agreement to contribute to the building of an air terminal at Keflavik will blunt those moves.

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[ ] The left's good showing in recent nationwide municipal elections suggests that a leftist coalition is a possibility. The People's Alliance, which ran second overall in the local contests, did particularly well in Reykjavik. The Social Democrats also made significant gains in the capital, home of more than 40 percent of Iceland's voters. The Independence Party lost its 50-year hold on the Reykjavik municipal government.

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[ ] The key to the formation of the next coalition will be the performance of the Progressives, who fell from second to third place in the local elections. Should they fare no worse tomorrow, they probably will agree to join another coalition with Hallgrimsson. If they drop even further, they might either remain outside the government in order to rebuild their party or seek to join a leftist coalition. Either choice could mean protracted negotiations before a new government is installed.

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#### EC-LDC's: Cooperation Talks

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[ ] //The European Community and the 53 African, Caribbean, and Pacific states that are parties to the comprehensive Lome Convention for economic cooperation will formally start the long process of renegotiating the pact next month. Both sides are generally satisfied with the operation of the convention, although each intends to propose changes and additions; the EC Commission wants to tighten its control over the benefits provided to the 53 states, while the latter are seeking

*still greater benefits. Although past negotiations have been cordial, problems are likely if the EC pushes to incorporate provisions on human rights in the new agreement.*//

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[ ] //The five-year agreement signed in Lome, Togo, in 1975 grew out of previous EC preferential trade and aid arrangements with former colonies. Under the present agreement, all industrial products and an estimated 84 percent of agricultural exports of the 53 countries enter the EC duty-free. In 1976, the 53 sold 40 percent of their exports to the EC, although they accounted for only 3.4 percent of EC imports.

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[ ] //The Europeans would like to alleviate competition from the 53 in depressed industries, such as textiles. Separate trade protocols covering sugar--which the EC produces in surplus--as well as rum and bananas have been among the most contentious provisions of the Lome Convention.

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[ ] //Development aid under the Convention has been slow in starting because the non-European states frequently have submitted overly ambitious or ill-prepared project proposals. Through the European Development Fund, the EC promised \$3.2 billion in grants and low-interest loans for 1976 to 1979. Commission officials believe most Convention funds will be committed by 1980 but expect disbursements to lag far behind. Private investment projects worth up to \$1 billion were evaluated last year by the two sides' joint Center for Industrial Development to help stimulate investment in the 53 countries.

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[ ] //Several proposals drafted by the EC Commission for a second Lome Convention have caused wrangling within the Community and are bound to stir controversy when presented to the Asian, Caribbean, and Pacific partners. Most hotly debated is the proposal to add provisions on respect for human rights. The Commission has been able to delay project aid to Uganda, but would like clear authority to cut off assistance to governments that consistently violate human rights.

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[ ] //Because of division on the issue within the Community, the EC probably will make clear its intent to restrict cooperation with violators but will not seek to establish its contractual right to cut off aid. The 53 countries also remain divided on the issue of human rights provisions in a new convention.



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[REDACTED] //The Commission's suggestion that formal trade consultation procedures be established to forewarn the less-developed partners of possible EC import restrictions may help handle sensitive trade problems and will slow the erosion of European public support for trade concessions to the EC's partners in the Convention.//

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[REDACTED] //Not surprisingly, the 53 heterogeneous states are less far along than the EC in drawing up proposals for revising the Convention. Their secretariat proposes that the new agreement:

- Expand the EC-financed export stabilization fund to include more products from the 53 states.
- Halt the erosion of trade preferences caused by expansion of the EC generalized system of preferences for developing countries.
- Increase benefits under the present commodity protocols and extend them to beef and other items.
- Establish long-term arrangements for purchasing surplus EC agricultural commodities and guaranteeing markets in the EC for commodities produced with Community development aid.//

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[REDACTED] //The 53 states also want a substantial increase in technical and financial assistance under the new agreement, dubbed Lome II; the EC Commission has proposed that the Community try to maintain the real value of the aid levels provided under Lome I. Actual amounts will not be set until the final phase of the negotiations sometime in 1979.//

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[REDACTED] //Although meetings of the two sides over the past several years have been conducted in a friendly atmosphere, EC officials complain about the "UNCTAD-like" negotiating procedures of the 53. A Commission spokesman has observed that in one sense the Lome Convention is not "paying off" for the EC because its less-developed partners are no more cooperative on North-South issues than the less-developed countries as a whole.

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[REDACTED]

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[REDACTED]

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Norway-USSR

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[REDACTED] At a meeting in Moscow last week, the Norwegian-Soviet Fisheries Commission failed to establish catch quotas for the Barents Sea because of the Soviets' insistence on increasing their share of certain diminishing species. The absence of quotas undermines the purpose of the "grey zone" agreement that established a large area of dual administration near the disputed maritime border. The two countries did agree orally, however, to a one-year extension of that accord.

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[REDACTED] No progress was made on establishing procedures for protection of fish resources in the Svalbard area, the other issue discussed at the meeting, because the Soviets remain determined to police their own fleet rather than submit to Norwegian administration. Ineffective control over fish resources could spell trouble for Norway's fishing industry and for the people of Norway's northern provinces, where fishing is the main occupation.

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